

D.T.E. 99-54

Application of Western Massachusetts Electric Company, under the provisions of G.L. c. 164,

§ 94G(a), for approval by the Department of Telecommunications and Energy of the Company's annual performance program relating to fuel procurement and use.

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FOR: WESTERN MASSACHUSETTS ELECTRIC COMPANY

Petitioner

## I. INTRODUCTION

On May 19, 1999, pursuant to G.L. c. 164, § 94G(a), Western Massachusetts Electric Company ("WMECo" or "Company") petitioned the Massachusetts Department of Telecommunications and Energy ("Department") for approval of proposed generating unit performance goals for the period June 1, 1999 through May 31, 2000. The petition was docketed as D.T.E. 99-54. Section 94G(a) requires each electric company to file with the Department annual performance programs that provide for the efficient and cost-effective operation of its generating units. Each company's performance program must include proposed unit and system performance goals for availability factor ("AF"), equivalent availability factor ("EAF"), capacity factor ("CF"), forced outage rate ("FOR"), and heat rate ("HR").

Pursuant to notice duly issued, the Department conducted a hearing on the Company's petition on September 28, 1999. In support of its petition, the Company sponsored the testimony of Robert A. Baumann, revenue requirements and fuel-accounting and recovery group manager, and Thomas J. Dente, manager of financial regulation for Northeast Utilities Service Company ("NUSCO")<sup>(u)</sup> (Tr. at 5, 6, 14). The evidentiary record includes ten exhibits.

## II. WMECO'S SUPPLY-SIDE PORTFOLIO

The Company owns 19.0 percent (123.1 megawatts ("MW")) of Millstone 1, a 647.7 MW nuclear unit; 19.0 percent (166.2 MW) of Millstone 2, a 874.5 MW nuclear unit; and 12.2 percent (139.5 MW) of Millstone 3, a 1140.0 MW nuclear unit, which are all owned and operated by Northeast Utilities ("NU") (Exhs. WM-1, at 2, 38, 39, 46; DTE-7). See Western Massachusetts Electric Company, D.T.E. 98-28, at 2 (2000). The Company, however, did not include its capacity entitlement to Millstone 1 in its supply-side portfolio since Millstone 1 was permanently shut down on July 24, 1998 (Exhs. WM-1, at T6; DTE-6; Tr. at 7, 8).<sup>(2)</sup>

During June and July 1999, the Company exclusively owned and operated West Springfield 3, a 107.0 MW fossil unit, and three jet units: Doreen 10 (18.3 MW); Woodland Road 10 (18.5 MW); and West Springfield 10 (19.0 MW) (Exh. WM-1, at 38-40).

See D.T.E. 98-28, at 2. The Company, however, excluded its capacity entitlements to West Springfield 3, Doreen 10, Woodland Road 10, and West Springfield 10 from its supply-side portfolio since these units were sold in July 1999 (Exhs. WM-1, at T6; DTE-4; DTE-5).

In addition, the Company owns 19.0 percent (51.3 MW) of each of four 270.0 MW pumped storage units, Northfield 1, 2, 3, and 4 (Exh. WM-1, at 2, 38, 41-44). Under a life-of-the-unit contract, the Company receives 2.3 percent (11.9 MW) from Vermont Yankee ("VY"), a 531.0 MW nuclear unit, operated by Vermont Yankee Nuclear Power Corporation (Exh. WM-1, at 2, 38, 39, 46). See D.T.E. 98-28, at 2. The remainder of the Company's supply comes from purchases from small power producers, such as Masspower (54.0 MW) (Exh. WM-1, at T5, 45).

During June and July 1999, the Company's supply did include purchases from small power producers, such as Springfield (7.5 MW) (Exhs. WM-1, at 45; DTE-3). The Company excluded its capacity entitlement to the Springfield small power producer from its supply-side portfolio, however, because the Company sold this capacity entitlement on July 23, 1999 (Exhs. WM-1, at 45; DTE-3).

For the purpose of distinguishing those units that contribute most to system costs, performance programs identify major and minor units. Major units are units that contributed at least five percent of the system generation (as measured in MW hours) in any of the previous three years, or units in which the Company has at least a 100 MW entitlement during the upcoming performance year (Exhs. WM-1, at T5, 2, 3; DTE-2). Any unit that does not qualify as a major unit is a minor unit. The Company's major units are Millstone 2,

Millstone 3, VY, and Northfield 1, 2, 3, and 4 (Exhs. WM-1, at T5, 2, 3; DTE-2).

### III. THE COMPANY'S PROPOSED GOALS

The Company submitted proposed performance goals for Millstone 2, Millstone 3, VY, and Northfield 1, 2, 3, and 4 generating units (Exhs. WM-1, at 1, 5, 6; DTE-1). The Company explained that it did not submit proposed performance goals for CY, MY, and Millstone 1 because the permanent retirement of those facilities triggered the removal of those units from the goal-setting process (Exhs. WM-1, at T6; DTE-6; DTE-8; DTE-9). See

D.T.E. 98-28, at 3, 4.<sup>(3)</sup>

The Company explained that it also did not submit proposed performance goals for West Springfield 3, Doreen 10, Woodland Road 10, and West Springfield 10 generating units because it sold these units in July 1999 (Exhs. WM-1, at T6; DTE-4; DTE-5).<sup>(4)</sup> The Company indicated that it could have submitted proposed performance goals for these units for the period June 1, 1999 to the date they were sold (Tr. at 10-12).<sup>(5)</sup> The Company stated it did not submit proposed performance goals for these units for two reasons. First, according to the Company, it "would have had to develop some type of a partial-goal methodology, because the current methodology is an annual methodology" (Tr. at 11, 12). Second, the omission of performance goals for these units would not result in a major impact on system goals because the units "are relatively small units, and the generation from them is relatively small compared to the entire system" (*id.*). The Company stated that it also did not submit proposed performance goals for the Masspower and Springfield small power producers because the Masspower contract contains performance guarantees and the Company has divested its capacity entitlement interest in Springfield (Exh. WM-1, at T5, 45; DTE-3; DTE-4; DTE-5).

The Company stated that its performance goals for its Millstone 2, Millstone 3, VY, and Northfield 1, 2, 3, and 4 generating units were calculated in a manner consistent with the method approved by the Department in D.T.E. 98-28 (Exhs. WM-1; DTE-1). Under the Company's goals proposal, the EAF goals for major and minor units were set at values corresponding to each unit's Target Unit Availability ("TUA"), which are the availability targets that the New England Power Pool ("NEPOOL") sets for each member utility's units under its Performance Incentive Program (Exhs. WM-1, at T7, 6; DTE-1). In developing its proposed goals, the Company used the TUAs approved by the NEPOOL Executive Committee on June 12, 1992, and subsequently approved for implementation by the New England Power Supply Planning Committee ("NEPLAN") in January 1993 (Exhs. WM-1, at T7, 33; DTE-1).

The Company calculated the remaining performance goals (*i.e.*, AF, CF, FOR, and HR) in accordance with the major unit methodology approved in previous proceedings, regardless of whether units met the major or minor unit criteria (Exhs. WM-1, at T3, T4,

T7-T9, 1, 7-9; DTE-1). <sup>(6)</sup> The Company also calculated system goals in a manner consistent with the method approved by the Department in previous proceedings (Exhs. WM-1, at T4, T8, 1, 6; DTE-1). <sup>(7)</sup>

#### IV. ANALYSIS AND FINDINGS

Although the Companies did not file performance goals for West Springfield 3, Doreen 10, Woodland Road 10, and West Springfield 10 because the units had been divested early in the performance year, the Company indicated that performance goals could have been submitted for these units by a partial goals method. Similarly, although the Company filed performance goals for Millstone 2 and Millstone 3 based on a full year, these units began operating under a performance-based ratemaking mechanism seven months into the

performance year, i.e., January 1, 2000, again making a partial goals method more appropriate. See D.T.E. 97-120, at 112-130; see also Northeast Utilities Service Company, Order Accepting for Filing and Suspending Proposal Amendment and Establishing and Deferring Hearing Procedures, 88 F.E.R.C. ¶ 61,113; Northeast Utilities Operating Companies, Order Accepting for Filing, ER00-24-000, November 3, 1999. Finally, a partial goal method is indicated because the Company also divested its interests in Northfield 1, 2, 3, and 4 during the performance year. See Western Massachusetts Electric Company, D.T.E. 97-74 (2000).

With respect to West Springfield 3, Doreen 10, Woodland Road 10, West Springfield 10, and Northfield 1, 2, 3, and 4, the appropriate time period for performance goals based on a partial goals method is June 1, 1999 to the date of divestiture. See D.T.E. 98-13F at 6-7. With respect to Millstone 2 and Millstone 3, the appropriate time period for performance goals based on a partial goals method is June 1, 1999 to January 1, 2000, when the

performance-based ratemaking mechanism began to operate. For the balance of the current performance year and in subsequent years, the performance of Millstone 2 and Millstone 3 will be guided by the performance-based ratemaking mechanism established in D.T.E. 97-120, at 112-130. Because the Department will review the performance of Millstone 2 and Millstone 3 under this performance-based ratemaking mechanism, pursuant to G.L. c. 164, § 94G(g), the Department hereby grants the Company an exemption from the requirements of G.L. c. 164,

§ 94G(a) with respect to Millstone 2 and Millstone 3, effective January 1, 2000.

Accordingly, the Department directs the Company to develop and propose a partial performance goals method for West Springfield 3; Doreen 10; Woodland Road 10; West Springfield 10; Northfield 1, 2, 3, and 4; Millstone 2; and Millstone 3, and to submit the resulting goals for Department review in its actual unit performance program filing for its

June 1, 1999 through May 31, 2000 performance year. The Company is further directed to develop and propose its partial performance goals method, to the extent possible, in a manner consistent with the method approved by the Department in Western Massachusetts Electric Company, D.T.E. 98-28 (2000). Finally, the Department has reviewed the Company's proposal and finds that, with the exceptions noted above, it includes all of the units that should be included in the Company's generating unit performance program pursuant to G.L. c. 164,

§ 94G(a).

#### V. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That the Company develop and propose a partial performance goals method for West Springfield 3; Doreen 10; Woodland Road 10; West Springfield 10; Northfield 1, 2, 3, and 4; Millstone 2; and Millstone 3, and submit the resulting goals for Department review in its actual unit performance program filing for its June 1, 1999 through May 31, 2000 performance year; and it is

FURTHER ORDERED: That, pursuant to G.L. c. 164, § 94G and § 2.6(b) of the Department's performance program guidelines, dated December 8, 1981, the Company shall report on its progress under the annual performance program with each filing made pursuant to

these guidelines; and it is

FURTHER ORDERED: That the Company follow all other directives contained in this Order.

By Order of the Department,

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James Connelly, Chairman

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W. Robert Keating, Commissioner

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Paul B. Vasington, Commissioner

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Eugene J. Sullivan, Jr., Commissioner

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Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).

1. NUSCO provides engineering, financial, legal, and other services for WMECo, a Northeast Utilities ("NU") subsidiary (Tr. at 14).
2. The Company's life-of-the-unit contracts for capacity entitlement to Connecticut Yankee ("CY") and Maine Yankee ("MY") were excluded from the supply-side portfolio since CY and MY were permanently shut down on December 4, 1996 and August 6, 1997, respectively (Exhs. WM-1, at T6, 38, 39; DTE-6; DTE-8; DTE-9). See D.T.E. 98-28, at 3; see also Western Massachusetts Electric Company, D.T.E. 97-30, at 3 (1997).
3. In Western Massachusetts Electric Company, D.T.E. 97-120, at 30 (1999), the Department noted that the Electric Industry Restructuring Act, St. 1997, c. 164 requires that a company provide necessary and reasonable mitigation to reduce transition costs and that the retirement of Millstone 1 due to mismanagement results in lost opportunity for mitigation of transition costs. To compensate WMECo ratepayers for lost mitigation, the Department did not allow WMECo to earn a return on its unamortized Millstone 1 plant balance, the post-shutdown and pre-decommissioning costs, end-of-life material and supplies, and final nuclear core. The Department found that this disallowance adequately held the Company accountable for the mitigation that would otherwise have been obtained through the sale of the plant's generation output until the sale of the plant itself. Id.
4. In Western Massachusetts Electric Company, D.T.E. 98-13F at 6-8 (1999), the Department granted the Company's request to be exempt from the goal-setting and performance review requirements of G.L. c. 164 §§ 94G and 94G1/2 for its non-nuclear units, effective as of the date that WMECo divests its entitlement interests in each of its generating units.
5. On June 30, 1999, the Department approved the Company's plan to divest its capacity entitlement interests in West Springfield 3, Doreen 10, Woodland Road 10, and West Springfield 10. Western Massachusetts Electric Company, D.T.E. 99-29 (1999).

6. <sup>6</sup> AF goals were derived by adding to the EAF goal the ratio of average annual equivalent derated hours for the last three years to average annual period hours (Exh. WM-1, at T7). CF goals for nuclear units were set equal to the respective nuclear units' EAF goal (id.). CF goals for fossil and pumped storage units were derived by multiplying the ratio of the three-year average CF to the three-year average EAF by the EAF goal (id.). FOR goals were derived by dividing projected FOH by the sum of projected FOH and SH (id. at T8). Projected FOH were developed by dividing the three-year average FOH by the three-year average PH, then multiplying by the PH in the performance year (id. at T8). Projected SH were developed by calculating the ratio of three-year average SH to three-year average AH and multiplying that ratio by the AF goal, then by PH in the performance year (id. at T8). HR goals were set at the best (lowest) annual HR obtained during the previous three years (id. at T8).

7. <sup>7</sup> System goals for EAF, AF, CF, FOR, and HR were developed from the weighted averages of the goals for the individual units (Exh. WM-1, at T4, T5, 7). The weighting factor for each unit was the ratio of unit to system generation as projected during the performance year (id.). Projected generation for each unit was calculated by multiplying the Company's entitlement in each unit's capacity by its CF goal (id.). Projected system generation was calculated as the sum of projected unit generations across the system (id.). For the system HR goal calculation, the weighting factor for each fossil and nuclear unit was developed as a ratio of unit to system generation, excluding the Company's hydro facilities, which are Northfield Units 1 through 4 (id.).